Bringing dependency back in: the economic crisis in post-socialist Europe and the continued relevance of dependent development

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Bringing Dependency Back In: The Economic Crisis in Post-socialist Europe and the Continued Relevance of Dependent Development

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Abstract: *»Bringing Dependency Back In: Die ökonomische Krise im post-sozialistischen Europa und die fortgesetzte Relevanz abhängiger Entwicklung«*. The current economic crisis constitutes an important test for the European Union as a whole and its new member states in particular. Whereas EU membership of the Central European countries is generally considered to mark the end of their period of economic and political transition, the current economic hardships might serve as a crucial test for this proposition. This paper takes two often forgotten theoretical paradigms to study the current developments in Central Europe: dependency theory and World System Theory. More in particular, the paper seeks to establish the relevance of the concept of the semi-periphery to the current Central European states.

It concludes that the region has retained its historical position as Europe's semi-periphery, where the hierarchy between the centre and the periphery is primarily shaped through the involvement of transnational corporations that have their headquarters in Western Europe with subsidiaries in Central Europe. This has had important repercussions for economic development in this region, as the countries have no control over the commending heights of their economy, a development of which the consequences are now becoming increasingly clear.

Keywords: dependent development, world system theory, post-socialist states, Visegrad Four, financial crises.

1. Introduction

As the economic crisis hit Europe, it did not stop short of those economies that were, until quite recently, regarded as examples of successful post-socialist development: the new EU member states of Central Europe. Whereas the region at the moment shows a quite diverse picture in terms of growth rates, their forecasts are quite gloomy, as contracting credit markets and mounting bad debts could plunge the whole region into a deep recession (Financial Times, 16 May 2009, 7). With these dark economic predictions, discussions concerning structural problems of a region that was until recently seen as a

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forerunner in sound economic policies, are revitalised. To a great extent these discussions are related to an inherent vulnerability of the region as a result of its dependency on foreign capital. Since the mid 1990s, the region has been on a capital infuse with transnational corporations (TNCs) investing great sums into these emerging market economies. This has been especially the case in the banking scene in the region, which is currently dominated by foreign banks.

Whereas since the mid 1990s foreign investments have been considered to be the driving force behind the economic success story of the region, its dependency on foreign capital is now turning out to be the Achilles' heel of their economic system. With financial sources drying out in Western Europe, discussions on the desirability of this kind of dependency are revisited.

The developments come as a surprise to many scholars of the region. The general impression that can be derived from the literature is that the new EU member states are in a process of catching up with the more advanced economies of Western Europe. During the first half of the 1990s there have been debates on the political and economic consequences of a possible foreign led model of economic development. However, as time passed, the influx of FDI was combined with considerable annual growth rates and the debate has dried out, both empirically and normatively. Although there is some recent work from various theoretical perspectives that challenge this orthodoxy (see for instance Bohle 2004, Holman 2004, Bohle and Greskovits 2006, 2007, Böröcz 2004, Shields 2003, 2004, Drahokoupil 2008, 2009a and b) the general impression is implicitly or explicitly inspired by modernist notions of development. Whereas the current literature acknowledges the ties that bind the region to the rest of the world economy, most studies do nothing more than conclude that the region enjoyed immense flows of FDI, particularly since the end of the 1990s and that the increasing interconnectedness of the region with the rest of the world has benefited the region greatly (see for instance Hanson for the general argument, Hunya 2000 for post-socialist Europe, and Goldberg 2007 for the financial sector in particular).

With a special focus on the current crisis, this paper revisits the role of foreign capital in the region. It does so by taking up a theoretical approach that has largely disappeared from the debates on the position of post-socialist Europe in the world economy: dependency theory and World System Theory and, in particular, the concept of the semi-periphery. These two theoretical perspectives, which have a lot in common, have been developed to capture the problems that states outside the core economies face in their economic development. Especially World System Theory has made strong claims with regard to the economic trajectories for countries that belong neither to the richest nor the poorest states in the world. We revisit these theoretical perspectives and aim to identify the merits of such approaches. To what extent can they further our understanding of the current economic problems in post-socialist Europe and the position of the region in the world economy? The answer to this question would make an important contribution to the literature in two ways. First, it could revitalise some of the leading theories on economic development in the context of post-socialist Europe. The economic crisis in post-socialist Europe constitutes a crucial case for this perspective in the sense that it makes the social arrangements that are key within the dependency literature most visible. On the other hand, if the theory is not able to provide a convincing account for the current developments, this poses serious challenges to some of its core assumptions (following Yin 1984). Second, the answer can cast new light on the path of economic development upon which the post-socialist European states have embarked. The current crisis poses important challenges to economic development in the region and insights from a dependency theory perspective might be able to point at some of the major obstacles for further, sustainable, development (following Chase-Dunn 1975).

In its empirical evidence, the paper focuses on the four countries that constitute the Visegrad group: the Czech and Slovak Republic, Hungary and Poland. In these countries, which are widely seen as the most advanced post-socialist states, the period of "transition" has come to an end. They are well integrated in the world economy, albeit in a subordinate position (Nölke and Vliegenthart 2009). Consequently, the region has been regularly typified as semi-peripheral (see also Böröcz 1992, 2004, Roncevic 2002, Gáspár and Nováky 2002). The region therefore constitutes a legitimate testing ground for the claims made by the dependency theory and World System Theory on semi-peripheral development. This paper pays particular attention to the banking sector for three reasons. First, banks play a vital role in the allocation of financial resources within an economy, which has important repercussions for the economy as a whole. Second, the financial sector has been the segment of the economy that has been most deeply penetrated by foreign capital. Third, since the current crisis began as a financial crisis, the consequences of the crisis are the most tangible in this sector.

The remainder of this paper is structured as follows: in section two we will discuss the key concepts of the dependency literature. We will pay particular attention to the concept of the semi-periphery, the idea of dependent development, the merits of the so-called Global Commodity Chain (GCC) literature and the notion of the comprador class. In section three we will then apply these concepts and contributions to the context of post-socialist Europe.

We will argue that the economic structure of the region can best be captured under the heading of the semi-periphery, as these countries are dependent market economies, where economic development has been intrinsically tied to Western capital that has entered the region since the mid 1990s. In section four we will then turn to the current economic and financial crisis and discuss its repercussions for the region. Here we will also pay attention to the political discussions on the possible European support for the region. We observe that parts of the European financial sector have become so intertwined with the future of the region that this debate has become truly transnational. Section five provides a conclusion of our arguments.

2. Dependency theory and World System Theory revisited

The origin of dependency theory lies in the discussion of the underdevelopment of the Third World at the end of the 1950s and early 1960s. Its genesis is generally considered to be a reaction to the modernisation school (e.g. Rostow 1960), which argues that there is a linear process of development through which all economies in the world pass. Economic differences therefore are primarily related to the position of individual economies on the ladder of economic development. Each country in this respect has a common path to follow and late-comers are able to catch up with front-runners as long as they implement the right economic policies. Rather than adhering to such ideas, dependency theorists seek to understand the structural reasons for underdevelopment in the world's economic periphery as well as the hierarchical structure of the world economy. Although there is substantial variation within the academic work that builds on dependency theory, two main common building blocks can be identified. First, there is the argument that the world can only be adequately understood in the context of global capitalism.

Second, the theory departs from the notion that a separation between the economic and political realm is not only ontologically incorrect, but also hinders a thorough understanding of the functioning of today's world. Hence, dependency theory seeks to provide a holistic picture that pays particular attention to the interplay between economic and political developments.

Building on the work of dependency theorists of the 1960s, the 1970s saw the rise of an adjacent perspective, the World System Theory (WST) (Kay 2005). Pioneering work in this respect has been done by Immanuel Wallerstein, who in an attempt to create historical sociology of global capitalism came up with the concept of a world system that is the primary departing point for the analysis of social, economic and political phenomena. A world system is an autonomous system that can be defined by a set of dynamic relations between the various elements of the system and can be divided in three different categories: the core, the periphery and the semi-periphery.

The concept of the semi-periphery is probably one of the most discussed concepts of the World System Theory. To some the concept is amongst the most valuable contributions of WST (Peschard undated), whereas others have fiercely criticised the concept on both theoretical and methodological grounds (Lange 1985). Its point of departure is the empirical observation that a group of states neither fit the categorisation of core states nor the label periphery in terms of economic development (Radice 2009). What characterises the economy of these semi-periphal states are two major features. First, the semi-periphery in this respect combines elements of both the centre and the periphery. Semi-peripheral states have their own manufacturing industries that reflect a predominance of activities at the intermediate levels with regard to the current world-system distribution of capital intensive / labour intensive production (Chase-Dunn 1998, 212). In this respect, the semi-periphery has its particular position in the so-called global commodity chain, a linked set of processes that transform a raw good into a consumable item. Its relatively vibrant industrial base is to provide a source of cheap labor that counteracts upward pressures on wages in the core and, at the same time, provides a new location for the 'declining' industries that can no longer function profitably in the advanced economies, mainly as a result of too high wage costs. During the development of WST, these industries most notably included steel or textile production, but the particular goods change over time (Wallerstein 1985, 33).

Second, economic development – that indeed occurs in the semi-periphery – is related to capital brought into the semi-periphery from core economies. This notion of 'dependent development', which was first systemically theorised by Gereffi and Evans (1981), is of crucial importance in order to understand the economic trajectories of semi-peripheral states; it is therefore good to quote Gereffi and Evans at some greater length in order to capture meaning of 'dependent development'.

> This process of development in the contemporary period has been labelled "dependent development": "development" because it is characterized by capital accumulation and an increasingly complex differentiation of the internal productive structure, "dependent" because it is indelibly marked by the effects of continued dependence on capital housed in the current core countries (Gereffi and Evans 1981, 31-32).

In their study of Mexico and Brazil, Gereffi and Evans point to the importance of transnational corporations and foreign direct investments (FDI) that fuel the internal economies of these two countries to the extent that they were able to move away from the periphery of the world economy. At the same time, semi-peripheral states are particularly prone to external imbalances that constitute 'a chronic problem' (idem: 57).

More recently, many of the notions brought forward within the framework of the dependency school have been worked out empirically in the so-called Global Commodity Chains literature (GCC) that focuses not only on the process in which raw materials are transformed into final goods, but also on the web of social relations that connects productive activities (Bair 2005, 154-155).

One of main findings in this respect is the important role that transnational corporations play in the appropriation of value that is consequently led back to the countries in the core economies, leaving countries in the semi-periphery only limited control of the long term strategic choices with regard to the nature of production (Smith et al. 2002). At the same time, whereas the GCC literature in the context of a globalising world confirms many of the assumptions of the dependency school, the GCC literature also points to considerable variation amongst the different regions of the semi-periphery (Clancy 1998, 124, see also Whitley 1999). Here it is of importance to stress the fact that every core tends to have its own semi-periphery to which products that are no longer profitably produced in the core are outsourced. In the context of post-socialist Europe, which we will turn to in the next section, it is the core economies of Western Europe that are most closely tied to the dependent development of the region, both politically and economically.

Politically, the comprador class is the primary group of actors that articulate the interests of foreign capital in the semi-periphery. Paul Baran (1957) in his *Political Economy of Growth* was among the first to use this notion, followed by André Gunder Frank in his work on the development of underdevelopment in South America (1967). The comprador class refers to those fractions of the bourgeoisie in Third World societies whose interests, by virtue of their specific role as middlemen in the import and export business, are intimately tied to those of foreign capital. Normally, the comprador bourgeoisie is contrasted with the national bourgeoisie, a distinction that was first introduced by Nicos Poulantzas (1973). The comprador fraction, argued Poulantzas, does not have its own base for capital accumulation but

> is that fraction of the [bourgeois, AV] class whose interests are constitutively linked to foreign imperialist capital (capital belonging to the principal foreign imperialist power) and which is thus completely bound politically and ideologically to foreign capital (Poulantzas 1973, 39).

Hence, in the Poulantzian sense the comprador fraction is to be discerned from other fractions of the bourgeoisie in that it does not directly possess any significant means of production itself; and its wealth does not result directly from the appropriation of surplus value in the process of production.

3. Post-socialist Europe as part of the semi-periphery

To what extent does the concept of the semi-periphery hold for the Central European context? In this section, we trace the features of the semi-periphery discussed above, focusing on the critical concepts of dependent development and its political manifestation in the form of the comprador class. As King (1999) has pointed out, the debate between modernists and neoclassical economists, on the one hand, and adherents of the dependency school and WST, on the other, entered the scene after the collapse of state socialism.

Whereas this debate between the modernisation school and dependency theory had initially focused on Third World countries, the collapse of state socialism in Central and Eastern Europe and the subsequent transformation of the countries in the region towards a capitalist market economy raised important questions regarding the role of foreign capital and the future position of what used to be the Second World in rapidly globalising world economy.

However, as the first decade of economic transformation passed, the modernist or neoclassical approach seemed to have become dominant in explaining the developments, while the dependency school seems to have disappeared from the scenery. Substantial growth rates and the upward economic mobility of parts of the former Soviet bloc fuelled the notion that post-socialist Europe was going through a period of transition, at the end of which a full and equal integration in the world economy, the transatlantic security community and the European political project would be reached. IMF, NATO and EU membership were in this respect considered to be landmarks in a process that came to a close in the first half of the 2000s. It is therefore no surprise that already in 1995, Adrian Smith concluded that:

> Attempts to conceptualize "the transition to capitalism" in central and eastern Europe have been dominated by modernization accounts of a unilinear process by which one coherent system based upon the Plan is replaced by a successive system based on the market and private property relations (Smith 1995, 761).

At the same time, the importance of foreign capital for the economic development of the region is widely acknowledged. Far less attention, however, is paid to the distributional and political repercussions of a situation in which key decisions with regard to economic development are no longer taken within the region itself. Rather, most literature points out that FDI has led to superior performance of economy of Central Europe, especially compared to countries further east that have not embarked upon the path of democratisation and liberalisation. Such arguments are backed by statistical evidence that – after a fierce back drop in the early 1990s – demonstrates economic development or, somewhat more precise, economic growth since the second half of the 1990s, as table 1 also demonstrates.

Table 1: Economic development in Visegrad Four

Year/ Country	Czech Republic	Hungary	Poland	Slovak Republic
1990	100	100	100	100
1994	90	88	103	80
1999	100	104	137	101
2003	113	125	155	116
2007	141	144	191	155

Source: WDI, Quick Query, own calculations.
Economic Development measured as GDP growth per capita.

This paper does not contest the fact that the region has indeed known strong economic development since the second half of the 1990s. Also in comparison to advanced capitalist economies, economic growth rates in Central Europe have been above average in the OECD world. There is even some evidence of upward mobility, as we might conclude from table 2. This is, however, not necessarily in contradiction to the position of the region as part of the semi-periphery. Rather, upward and downward mobility is often identified as one of the main characteristics of this part of the world system (Wallerstein 1985, 35, Chase-Dunn 1975).

Table 2: Visegrad Four vis-à-vis high income countries

Year/ Country	Czech Republic	Hungary	Poland	Slovak Republic
1990	0,6	0,5	0,3	0,4
1994	0,6	0,4	0,3	0,4
1999	0,6	0,4	0,4	0,4
2003	0,6	0,5	0,4	0,4
2007	0,7	0,5	0,5	0,6

Source: WDI, Quick Quey, own calculations.
GDP per capita in Visegrad Four compared to GDP per capita of high income countries.

As pointed out in the previous section, the semi-periphery combines features of both core and periphery, thereby taking a middling location within this global hierarchy (Shannon 1996, 32-39, Wallerstein 2000, 86-89). As we will demonstrate in this section, the economic structures of the region embody key elements of the semi-periphery, as discussed in the previous section.

Historically speaking, the region has been in this position for over a few centuries. The heavy dependency on foreign capital is, for instance, not a new phenomenon in East Central Europe; it has been a recurring theme since the start of its industrialization process in the second half of the 19th century. From this time onwards, crucial economic sectors have been dominated and controlled by foreign capital and, more specifically, foreign banks. Foreign capital has played a decisive role in building a modern infrastructure and banking system as well as major elements of economic modernization. Thus, at the end of the 19th century more than 50 per cent of all banks and government debts in Hungary were in foreign hands (Berend and Ránki 1974, 101-102), a tendency that was disrupted during the communist period only to reappear in greater scale after the demise of state socialism. Characteristically, the origin of foreign capital nowadays does not fundamentally differ from that during the 19th century. German and Austrian (and, to a more limited degree, Italian) capital dominated the financial scene in ECE in the 19th century as they do now.

The postwar period in this respect showed a remarkable shift in geopolitical terms, but also stability of its financial dependency. During the communist era, the region moved into a position of 'dual dependency' (Böröcz 1992), in which it was geopolitically subordinate to the USSR and increasingly economically dependent on western capital, especially after 1970. In this respect, dependency on capital from Western Europe has been key to economic development in East

Central Europe ever since the region departed from feudalism. This has been no different since the collapse of state socialism at the end of the 1980s. Since then, foreign capital has flown into the region. First hesitantly, as the political situation in the region remained somewhat uncertain during the early years of economic transformation, but since the mid 1990s with ever growing force as table 3 demonstrates.

Table 3: FDI stock in Visegrad Four

Year/ Country	Czech Republic	Hungary	Poland	Slovak Republic
1994	10,4	16,6	3,5	5,7
1999	29,2	47,1	15,5	15,5
2003	49,6	57,3	26,7	44,2
2007	58,4	71,1	34,0	51,4

Source: Unctad, FDI indicators.
FDI stock measured as percentage of GDP.

It is important, however, to take a closer look at the kind of economic activities to which the FDI flows have gone. Here we find that foreign capital has primarily sought to penetrate the industrial sectors that are oriented towards the production of durable consumer goods for Western European markets (see table 4, Nölke and Vliegenthart 2009). Typical examples for these industries today include car assembly and consumer electronics, although a rigid perspective of sectors as a whole would distract our attention from the fact that the semi-periphery does not harbour the full business cycle, but rather focuses on the production segment. The more profitable stages such as branding and marketing are situated in the core economies, an argument that has been made most prominently by the GCC Commodity Chain literature (for an application on Eastern Europe see Caban and Henderson 2003). Thus, the economic gain for the semi-periphery remains limited (see also Perry 2009 for a general argument).

Table 4: Share of foreign ownership in four strategic sectors

Country/ Sectors	Automotive	Manufacturing	Electronics
Czech Republic	93,1	52,6	74,8
Hungary	93,2	60,3	92,2
Poland	90,8	45,2	70,3
Slovak Republic	97,3	68,5	79,0

Sources: For 2004 based on OECD.stat database measured as a percentage of turnover.

Equally important is the high level of foreign capital in the banking sector. The banking sector is of great importance in any capitalist economy, but especially so in those that go through a process of profound restructuring. In the context of post-socialist Central Europe, banks are the primary allocators of investments and therefore have a strong influence on the kind of economic activities that are promoted. As table 5 points out, the market shares of foreign branches and subsidiaries in the Euro area amounted to a mere 15.5% at the end of 2004, in comparison to well over 70% in the ECE economies (see also Raviv 2008, 168-170, King 2007, 310). Since the second half of the 1990s foreign banks have invested heavily in the region, primarily through take-overs of domestic rather than green field investments. Consequently, most of the largest banks in the region are now in foreign hands – see table 6. It is however also worthwhile to note that state ownership has not disappeared completely in the region. In Poland and Hungary, two of the leading banks are still under state control.

Table 5: Foreign ownership in banking sector in Visegrad Four

Year/ Country	Czech Republic	Hungary	Poland	Slovak Republic
1998	28,1	62,5	17,4	33,4
2000	72,1	70,1	72,6	42,1
2002	85,8	90,7	70,9	95,6
2004	94,8	80,4	67,6	96,7
2007	96,4	84,5	66,9	97,4

Sources: Mérö and Valentiny (2003: 35-38), Raiffeisen Research (2008).
Foreign bank assets measured as percentage of commercial bank assets.

Table 6: Largest banks in Central Europe

Bank	*Country*	*Total Assets (millions euro)*	*Largest Shareholder*
Bank Pekao	Poland	34,304	UniCredit
Ceska Sporitelna	Czech Republic	30,573	Erste Bank
PKO Banka Polski	Poland	30,083	Polish State
Ceskoslovenská obchodní Banka	Czech Republic	27,847	KBC
Komercni Banka	Czech Republic	24,974	Societé Généralee
OTP Bank	Hungary	24,912	Hungarian State
Banka Comerciala Romana	Romania	17,562	Erste Bank
BRE Bank	Poland	15,512	Commerzbank AG
ING Slaski	Poland	14,415	ING
Nova Ljubljanska Banka	Slovenia	14,166	Slovenian State

Source: Raiffeisen Research (2008).

Consequently, foreign capital has had a serious impact on the socio-economic set-up of the region. The leading socio-economic institutions – as discussed within the Varieties of Capitalism literature (see for instance Hall and Soskice 2001) – are all co-shaped by the vital importance of FDI to economic development in post-socialist Europe. This is most keenly true for the Visegrad Four where institutional development has led to a configuration that neither resembles the traditional Rhineland model, nor the Anglo-Saxon type of capitalism. Rather, it has its own institutional configuration and, what is more, its own comparative advantages in the production of durable consumer goods, i.e. predominantly in the automotive and chemical industry, leading to a model that we can rightfully call a *Dependent Market Economy* (see Nölke and Vliegenthart 2009 for an extended argument on Dependent Market Economies in post-socialist Europe, see also table 7). This comparative advantage basically rests upon the combination of relatively well-educated work forces and low wages compared to the economies of the core. In contrast to these established market economies, the intra-firm hierarchies within transnational corporations play a crucial role in the organisation of the economy. Also in the field of corporate governance, transnational corporations play a vital role as headquarters control local subsidiaries rather than capital markets or a system of internal supervision via Supervisory Boards. Equally, when it comes to governmental policies in the field of education and industrial relations, policies are shaped to provide transnational firms with flexibility via company-level collective agreements and an educational system that is relatively low-cost, yet capable of providing the labour force with the basic qualifications needed for the continuation of the existing comparative advantage.

The characterisation of Visegrad Four as a Dependent Market Economy neatly fits within the framework of dependent development as discussed in the previous section. In this respect we find the post-socialist economies have reached an admittedly rather fragile equilibrium that allows for a distinct kind of economic development intrinsically rooted within an international division of labour. The stability of this equilibrium depends not only on internal developments but rather, as we shall see in the next section, can be greatly shaped by those abroad. At the same time, policy makers in the region might also be tempted to move beyond the existing status in an attempt to enter the core of the world economy – a path that is neither easy nor straightforward, as it would be necessary to move beyond the existing comparative advantages without directly having an alternative to embark upon.

Table 7: Post-socialist Capitalism in Visegrad Four in comparative

Institution/ Variety	Liberal Market Economies (US, UK)	Coordinated Market Economies (Germany, Austria)	Dependent Market Economies (Visegrad Four)
Distinctive coordination mechanism	Competitive *markets* and formal contracts	Inter-firm *networks* and associations	Dependence on intra-firm *hierarchies* within transnational enterprises
Primary means of raising investments	Domestic and international capital markets	Domestic bank lending and internally generated funds	Foreign direct investments and foreign-owned banks
Corporate governance	Outsider control: dispersed shareholders	Insider control: concentrated shareholders	Control by headquarters of transnational enterprises
Industrial relations	Pluralist, market-based, almost no collective agreements	Corporatist, rather consensual, sector-wide or even national agreements	Appeasement of skilled labor, company level collective agreements
Education and training system	General skills, high research and development expenditures	Company- or industry-specific skills, vocational training	Limited expenditures for further qualification
Transfer of innovations	Based on markets and formal contracts	Important role of joint ventures and business associations	Intra-firm transfer within transnational enterprise
Comparative advantages	Radical innovation in technology and service sectors	Incremental innovation of capital goods	Assembly platforms for semi-standardized industrial goods

Source: Table taken from Nölke and Vliegenthart (2009).

Adding further flesh to these bones of macro-economic data and socio-economic set-up of the region, there are studies that are conducted from a GCC perspective (amongst others Czaban and Henderson 1998 and 2003, Smith et al. 2002, Pickles et al. 2006). These studies, on the one hand, point to the importance of the state socialist legacy in the way in which the relations between the region and transnational capital are shaped. The transformation towards a market economy has been primarily a process on the ruins of state socialism (Stark and Bruszt 1998), rather than a process that has been designed and implemented out of the blue. On the other hand, GCC scholars point to a range of paths that countries and sectors have embarked upon in order to meet the pressures of international competition. Here we find that "restructuring of production in western European countries through outsourcing parts of the production process to relatively low-cost wage areas (amongst other places) in central and eastern Europe" (Hudson 2001, 13) has been one of the most frequent strategies of transnational corporations facing downward pressures on their profit rates in Western Europe and elsewhere. Whereas these developments were to a large extent exogenous to the region and rather the result of long-term overaccumulation (Harvey 2003, 149), the coincidence of the collapse of communism with US hegemony and its preferences for privatization and radical liberalisation, as well as its timing under the condition of advanced financialisation, has contributed to the particularly intensive restructuring of ownership in East Central Europe as well as to the overwhelming dominance of Western capital within these DMEs (see also Vliegenthart and Overbeek 2007 and Raviv 2008).

Politically speaking, this kind of dependent development has been strongly promoted by subsequent Central European governments regardless of the political colour (Vliegenthart 2009, Drahokoupil 2009a). Leading in this respect has been a comprador class in the Poulantzian sense of the word composed of the internal service sector such as consultants and advisors (Vliegenthart and Overbeek 2007 and Drahokoupil 2009b). In contrast to other semi-peripheral regions that have been analysed under the framework of WST, there has hardly been a serious rival to the comprador class, as a domestic bourgeoisie has largely been absent. This can, for the most part, be explained by the distinct history of the region. The ECE capitalist class that had been developing during the late 19th and the first half of the 20th century was suppressed during the state socialist era. Correspondingly, following the breakdown of the communist rule, a domestic bourgeoisie was lacking and western capital streamed into the region without much opposition, leading to a type of capitalism that has been labeled 'capitalism without capitalists' (Eyal et al. 1998).

This is not to say that this process has gone uncontested. On the contrary, the process has been prone the serious political discussions since its beginning.

During the early 1990s, most governments in the region, with the exception of Hungary, were rather reluctant to sell vital parts of their economy to foreign investors. Important sectors remained in state hands as politicians considered the sector to be of too great strategic importance to sell it off quickly.

Opponents of foreign led privatisation of the banking sector as well as the sale of domestic banks to foreign ones received great support from the population in the region (Sinn and Weichenrieder 1997). This changed however around the mid 1990s, when an economic crisis in the region and the prospect of EU membership paved the way for different strategies. With the EU pressing for a level playing field and the unconditional access of capital for the entire economy, governments adopted a more foreign investor-friendly policy. At the same time, transnational corporations became increasingly eager to enter the region after the first years of economic restructuring had passed. The different countries showed considerable determination to complete their paths to a free market economy. Consequently, foreign investments exploded and although large and controversial foreign take-overs were always met with some political resistance, policies were not radically adjusted, as governments kept a close eye on reaching EU membership as quickly as possible.

4. Dependent development and its repercussions in the current crisis – a first assessment

The fact that this process of dependent development was able to enforce itself might be understandable in light of the economic growth the countries have enjoyed since the mid 1990s, but with the current crisis it becomes questionable to what extent this strategy remains economically and politically viable. In this section, we seek to trace its first economic and political repercussions of this crisis and the initial reaction of the key actors.

As Dankse Bank (2009, 1) has pointed out in a recent survey of the region, the deepening of the financial sector during the last two decades was primarily fuelled by Western banks that invested large sums into the region under the premise that asset prices would continue to rise. The excess liquidity that existed as a result of overaccumulation in the core economies of Western Europe was transferred eastwards. With the outbreak of the financial crisis and acute liquidity problems for many transnational banks these inflows ran dry in late 2008. This process of capital contraction was sped up by the fact that many of the debts in the region are short term. Initially, this manifested itself in a rapid increase of the interest rates for short term loans that increased in September 2008 to close to 900 b.p. in Hungary, 700 for Poland and around 500 for the Czech and Slovak Republics, indicating that liquidity was becoming scarce and risk premiums for the region were rising (Mideuropa 2008, 2).

The drying out of capital inflows is of course not restricted to the financial sector, but is typical for the entire economy, as table 8 indicates.

Table 8: FDI inflow in Central Europe

Year/ Country	Czech Republic	Hungary	Poland	Slovak Republic
2007	9,3	6,1	23,0	3,3
2008	6,5	4,4	21,0	2,4
2009	3,5	3,2	15,0	1,2

Source: Economist Intelligence Unit, December 2008.
Data measured in $ Bln.

Compared to 2007, FDI inflows in the Czech Republic and Slovakia have been reduced by more than 50 per cent, whereas inflows in Hungary and Poland have gone down by more than one third.

The subsequent economic crisis and the collapse of demand primarily from Western Europe aggravated the situation- as table 9 shows. Whereas exports had been growing substantially during the 2000s, the economic crisis resulted almost immediately in rapidly declining demand for the (consumer) goods being produced by the post-socialist European countries. The fact that the region had specialised itself in the automotive industry meant that the almost complete fall out of demand for new cars contributed substantially to this decline in exports. Consequently, industrial production has shrinked rapidly since the second half of 2008, as table 10 demonstrates. Whereas initially there has been some variation, the smaller countries of the Visegrad four have all seen a drop of more than 20 per cent in the first quarter of 2009, with only Poland performing better – or less worse – with a drop of slightly more than 10 per cent.

Table 9: Export growth in Visegrad Four

Country/ Period	2008 overall	3Q 2008	4Q 2008	1Q 2009
Czech Republic	11.3	15.9	-7.7	-23.9
Hungary	5,2	5.8	-10.8	-26.3
Poland	11,7	17.8	-9.8	-23.3
Slovak Republic	13,7	18.0	-2.0	-21.5

Source: World Bank EU10 Regular Economic Report May 2009.

Table 10: Industrial production for the Visegrad Four

Country/ Period	2008 overall	3Q 2008	4Q 2008	1Q 2009
Czech Republic	-2,7	-1,9	-12,8	-20,0
Hungary	-1,0	-1,8	-12,2	-21,6
Poland	2,3	1,1	-6,0	-11,8
Slovak Republic	4,4	5,7	-11,1	22,9

Source: World Bank EU10 Regular Economic Report May 2009.

The consequences of these developments are further amplified by the fact that – as table 11 indicates – the currencies of Hungary, the Czech Republic and Poland have lost considerable value compared to the Euro since the second half of 2008. The Czech Crown has lost more than 10 per cent of its worth, whereas the Hungarian Forint and the Polish Zloty have lost more than 20 per cent.

Only Slovakia has not suffered from this development, as the Euro replaced their own currency as of the first of January 2009. Such a deterioration of the local currency does not constitute a problem per se, in the short term it could even spur exports. However, because many of the loans made to Central European states were in Euros, the declining exchange rates make it harder to pay them off. This has led some to conclude that Eastern Europe is now becoming the subprime borrower of Western Europe (<http://mises.org/story/3376>).

Table 11: Central European currencies vis-à-vis the Euro

Euro/ local currency	Czech Crown	Hungarian Forint	Polish Zloty
1 July 2008	23,8	235,9	3,4
1 October 2008	24,5	242,2	3,4
1 January 2009	26,9	267,0	4,2
1 April	27,1	301,9	4,5

Source:www.xe.com.

Finally, although clear and substantive data on capital outflow are not yet available, the risk of large-scale capital repatriation is looming over the Visegrad markets. As Financial Times columnist Willem Buiter has pointed out early this year, the discussions in the new EU member states on the introduction of capital controls might well be an indicator that policy makers in the region take this threat increasingly serious (Buiter 2009). If it would indeed come to large scale capital repatriation, two of the main ingredients of the Asian financial crisis would also apply to the current Central European context – namely the combination of currency devaluation and capital flight, which would render such a comparison relevant. Some forecasts even go so far as to argue that post-socialist Europe might not be in a better position than the Asian states in 1998 (BMI 2009).

In light of these developments, it is not surprising that some Central European politicians have called upon the EU to help them overcome the crisis.

As Jan Drahokoupil points out in his contribution, the Visegrad Four have – until now – suffered less from the economic crisis than other post-socialist states in Europe, such as the Baltic. However, even here there have been clear calls for assistance. Especially the Hungarian government, which is not only coping with current economic downturn but also with a large budget deficit, has called for the help of several international institutions. In October 2008 the Hungarian government closed a $25.1bln rescue deal with the IMF, of which $8.1bln was paid for by the EU and $1.4bln by the World Bank. Simultaneously, the Hungarian Prime Minister Gyurcsany has urged the European Bank for Reconstruction and Development (EBRD) to increase their activities in the Central European states rather than closing them down, as had been planned.

However, these flows did not prevent Hungary from slipping into a recession. This has led to severe criticism of the EU, especially amongst the Hungarian opposition, which has done too little to elevate the Hungarian problems. According to opposition leader Orban,

> the way the Western countries handle the crisis is financial protectionism against Central Europe… With the nationalization and financial bailout of western banks, the Central European financial institutions got into a disadvantageous position… (whereas) as long as the (Hungarian) banking sector was profitable, they [foreign banks, AV] always put the profit in their pocket (Hungarian News Agency, 22 February 2009).

These calls for support have found resonance with some sections of transnational capital. Especially those banks that heavily invested into the region have urged the EU to come to the rescue of post-socialist European economies. The high involvement of some Western banks in the region has made the future prospects of these bank intrinsically tied to those of the region.

Here it seems that the notion of dependent development is not purely restricted to the economies in the region itself but has become extended to those segments of transnational capital that, in their flight away from the fiercest competition in Western Europe, have put their focus on the new members of the EU and their borderlands. In late 2008 the Bayern Landesbank, EFG Eurobank, Erste Bank, Intesa Sanpaolo, KBC, Societé Génerale, Raiffeissen International, Swedbank and Unicredit formed a lobby group that has been pressing the EU and European Central Bank (ECB) to provide Central European states, whether EU member or not, with more funds in order to overcome their financial problems.

These banks have made longer-term commitments to the region. This is related partly to the orientation of the banks, as they come from Rhineland economies rather than Anglo-Saxon ones, but is also a result of the fact that profit rates in the region have been higher than in their home countries since the mid 1990s. It is precisely those banks that face serious competitive disadvantages – of size for instance – in the key markets of Western Europe (i.e. Germany, France, the UK) that in the 1990s and early 2000s have turned to the new semi-periphery to escape the worst competitive pressures (see also table 12). Initially, they have done so with considerable success. In 2001, for instance, Austrian banks made 1/3 of their profit in Central Europe, although they had invested only ten per cent of their assets there. The IMF reported that "margins have consistently been higher and loans losses lower than in mature banking markets of Austria" (Financial Times, 29 October 2002, 4).

Their call has been heard by some of the governments from which these banks originally stem. The Austrian government for instance has launched an initiative for an aid package to stabilise the emerging European banking sector, offering money of its own and urging Germany, France, Italy, Belgium and the EU to contribute. World Bank President Zoellick also implicitly supported this call, stating that “this is the time for Europe to come together to ensure that the achievements of the last twenty years are not lost because of an economic crisis that is rapidly turning into a human crisis” (Washington Post, 27 February 2009).

Table 12: Most important foreign banks in Visegrad Four

Bank	Home Country	Total Assets	*Presence in Visegrad Four*			
			Czech Republic	Hungary	Poland	Slovak Republic
KBC	Belgium	48429	x	x	x	x
Erste Bank	Austria	47300	x	x	-	x
UniCredit	Italy	40809	x	x	x	x
Raiffeisen	Austria	20152	x	x	x	x
Societé Generale	France	15875	x	-	x	-

Source: Raiffeisen Research (2008), own calculations.

Until now, however, most of the other EU member states have not answered this call for assistance. Facing their own problems, they appear to choose firstly to support their own national economies, as for instance France and Germany have done. The French government under leadership of Sarkozy has opted for a strategy that first of all seeks to save French jobs. The German government has been equally reluctant to support the region as its own economy, which is oriented on exports, has been affected considerably by the crisis. Especially the support of the latter is of crucial importance if a rescue plan such as that proposed by the Austrian government is to stand a chance.

The reluctance of many of the core economies of Western Europe to support the new member states can only be partly understood in the light of their own economic and financial problems. Rather it is an intrinsic element of the EU that has never developed any serious social dimension (Bohle 2004). EU structural funds have always been oriented toward increasing economic competiveness of weaker member states and never as a cushion to soften the strongest blows of economic restructuring. In this respect the economic crisis is probably going to be a serious blow to the dominant idea that the new EU member states are on a unilinear path towards the core of the world economy. It reflects the still existing deep division between the old and the new EU member states in economic and social terms. At the same time, post-socialist Europe is now suffering from its economic orientation. As part of their transformation toward a market economy and their desire to enter the EU (Vliegenthart and Horn 2007), the countries in the region have introduced neoliberal policies that have gone beyond the ones implemented simultaneously in Western Europe. As long as neoliberalism was considered to be the ultimate remedy for economic success, post-socialist Europe could be seen as some kind of promised land in terms of, for instance, fiscal policies (see

Vliegenthart and Overbeek 2008). With the current crisis, however, it is questionable whether these institutions are indeed apt to overcome the problems that have arisen. It might well be that different institutions are more apt to overcome the current problems though their introduction might well be a painful process.

5. Conclusion

So what can we take from this paper? First, notions such as the semi-periphery and dependent development have a continued relevance for the post-socialist development in Central Europe. For the last two decades, the region has retained its historical position as Europe's semi-periphery, where the hierarchy between the centre and the periphery is primarily shaped through the involvement of transnational corporations. These corporations have their headquarters in Western Europe and subsidiaries in Central Europe, which have an important impact upon economic development there. Whereas the region functions as an assembly platform for especially the Western European market, research and development have remained the core, which might, in the end, hinder substantial economic up-scaling of the region. At the same time, the post-socialist context adds a temporal flavour to the traditional mechanisms that we already know from the literature on other aspects of the semi-periphery. The suppression of the ECE domestic capitalist class during communism paved the way for massive privatization based on current hegemony of Anglo-Saxon ideas, which has led to a strong process of financialisation that strengthens intra-firm hierarchy. New technologies have entered the region but largely as a part of these intra-firm hierarchies, which subsequently reinforced the dependency of the region on transnational corporations for its economic development.

A second merit instigated by the theoretical tradition in which this paper is grounded concerns the debate concerning the ongoing graduation of former semi-peripheral economies. It has generally been argued that the region would follow the same path as countries such as Ireland, leading them into the core of the world economy (Roncevic 2002, 13-14). The latter have been able to experience sustained economic growth in the context of a very prominent role of foreign MNCs. However, what the current crisis points out is that such a path can be deeply disturbed by economic developments in the core economies over which regional governments have no control. At the same time, many of the new EU member states lack the resources to actively counter some of the most pressing consequences of the crisis, probably also putting them in a disadvantaged position vis-à-vis the core economies when the worst of the crisis is over. Our understanding of this process is indeed enhanced when we take some of the repercussions of dependent development into account.

Processes of dependent development as Gereffi and Evans already pointed out are less crisis-proof than other paths of developments. Especially the fact that the semi-peripheral countries have only very limited control of their economic destiny makes them more prone to the intrinsic shocks of the world economy. The process of privatization as well as the consequential sale of these firms to transnational capital has rendered the semi-peripheral states without control over the commending heights of their economy (King and Sznajder 2006, 790). The consequences of this are now becoming increasingly clear.

At the same time, there are some issues that call for further explanation. The most pressing issue relates to the position of transnational banks in the region. For the moment it seems that they have lined up alongside the new member states in their call for a rescue plan for post-socialist Europe. Such a coalition is hard to account for from a traditional dependency perspective. The coalition between capital from the core and states from the semi-periphery are not uncommon from this perspective, but are always on an unequal footing and are almost always related to developments within the semi-periphery. However, the current coalition might well be considered an advocacy coalition aimed at moving states with the economic core. Despite the fact that the transnational banks in this coalition largely consist of marginal actors, in a global perspective, their role as an intrinsic element of the core of the world economy gives this phenomenon a dimension that calls for further explanation.

Finally, the current crisis indicates some of the problematic long-term perspectives for the current model of economic development. It remains to be seen whether the current system will be able to maintain and reproduce itself. As World System Theory has pointed out, the semi-periphery is characterized as politically unstable regions, where political systems frequently show populist, if not authoritarian traits (Shannon 1996, 43). During the last decade we have already seen a rise of populism in countries such as Hungary, Poland and Slovakia; and it might well be that the current crisis will strengthen these movements even further. Continuing research that pays particular attention to the key actors in the post-socialist Europe, including the comprador class that seems unaffected so far by the current developments, is necessary to establish stronger predictions in this respect.

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